

Competing Tax Relief Measure (1B)

The Competing Measure:

- **Strengthens the Essential Programs and Services (EPS) Model** of school funding, enacted by the 121st legislature, by providing the increased state support over the specified five-year period necessary to achieve the goal of 55% state share of K-12 education costs by FY2009-10

The measure does not alter the phase-in of EPS but does provide \$222 million in additional state funds over the period to bolster state support for local education and achieve the 55% state share goal

- **Establishes a new method of distribution** for the state share of education funding that will ensure that local municipalities, single or part of a school administrative unit, will not be required to raise more than 10 mills for their local share of education costs

*Essential Programs and Services (EPS) provides the foundation for **student equity** statewide by recognizing the programs and associated costs necessary for all students to meet Maine's Learning Results. This new method of distribution provides **taxpayer equity** by limiting the amount of property tax mill rate that should be required to support the local share of EPS. The state share becomes the difference between the amount raised by the established maximum mill rate and the total EPS identified costs*

- **Expands the property tax Circuit Breaker Program** over a three-year period to provide direct property tax relief for middle-income households

Income eligibility broadens from \$30,300 to \$50,000 for single member households, and from \$46,900 to \$75,000 for multi-member households. The maximum reimbursement under the Circuit Breaker Program is increased from \$1,000 to \$2,000 over a three-year period

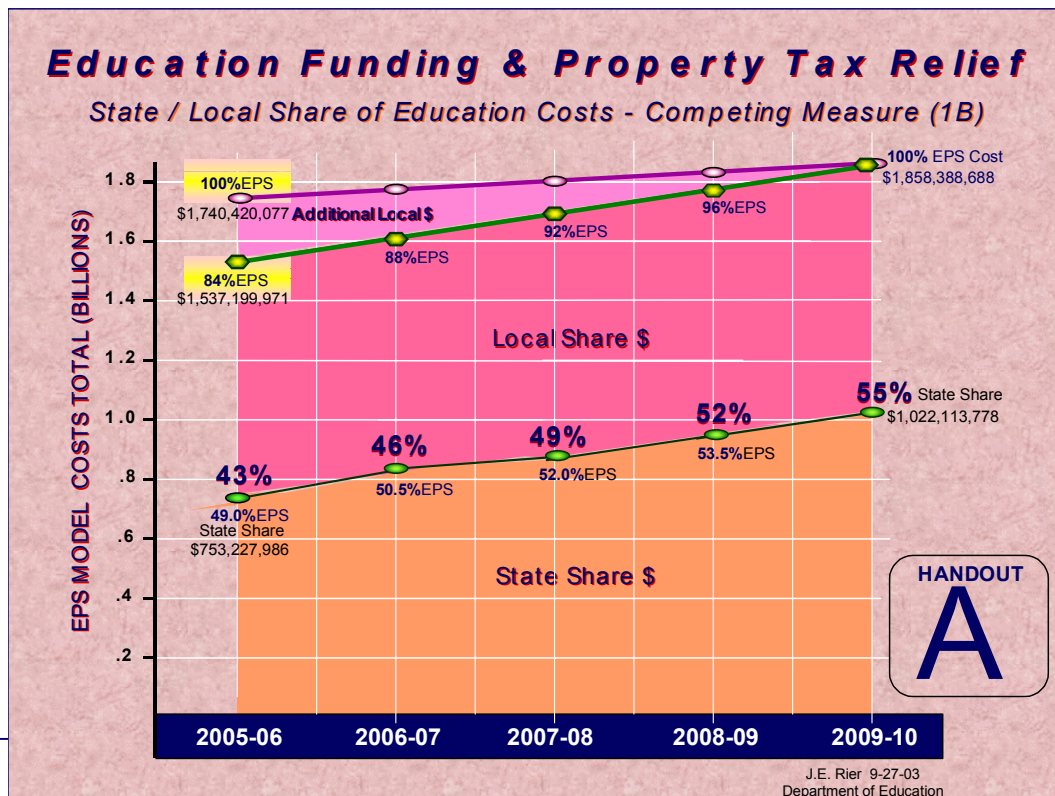
- **Restores the Homestead Exemption** to its original exemption level for all Maine residents.

The tiered exemption, enacted by the 121st legislature, is repealed and replaced with a single \$7,000 exemption from the valuation for the principal residences of all Maine residents

Key Education Funding Components

in the Governor and Legislature's Competing Measure (1B)

The Competing Measure strengthens the Essential Programs and Services (EPS) model of school funding, (LD1623) enacted by the 121st legislature, by providing the increased state support over the specified five-year period necessary to achieve the goal of 55% state share of statewide K-12 education costs by FY2009-10. The measure does not alter the phase-in requirements for EPS that recognize 84% of *operating costs* in FY2005-06 and annually increases that recognition to 100% of all EPS defined costs by FY2009-10.

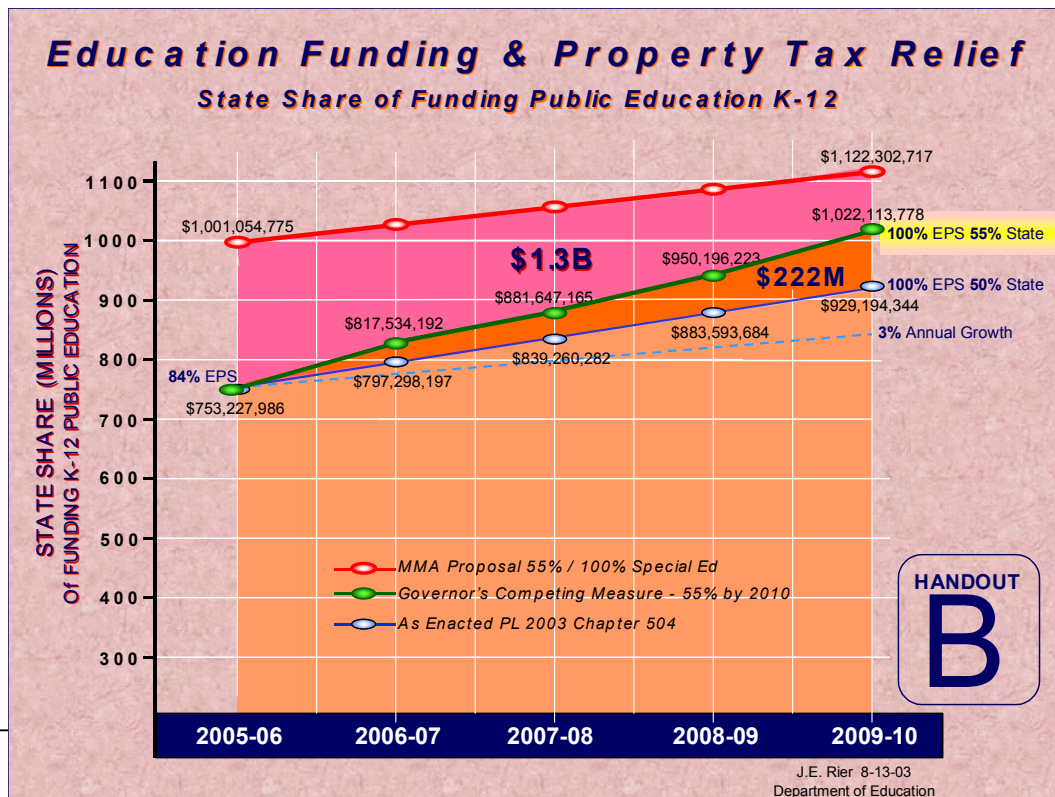


- ✓ The projected total costs for 100% implementation of EPS are calculated for each year over the period of the measure, FY2006 through FY2010 (\$1.740 billion in FY2006 to \$1.858 billion in FY2010) **100% EPS**
- ✓ Increased state support phases in over the five years through greater recognition of EPS defined costs from 84% of *Operating Costs* in FY2006 to 100% of all costs by FY2010 (\$1.537 billion in FY2006 to \$1.858 billion in FY2010) **84%EPS**
- ✓ The state share of the phased-in EPS defined costs increase each year from 49% in FY2006 to 55% by FY2010. This equates to the state share of all EPS defined costs increasing from 43% in FY2006 to a full 55% in FY2010

State Share Projections

The enacted EPS legislation (LD1623-PL2003 Chapter 504) specifies a 50% state share by FY2009-10. The increase in state share percentage to 55% called for in the Competing Measure provides an additional \$222 million in state support over the five-year period. When combined with the increases already projected for the enacted EPS legislation, the total new commitment of state funds over the five-year period reaches \$430 million. These increases are above a 3% annual growth base for state share of K-12 education costs.

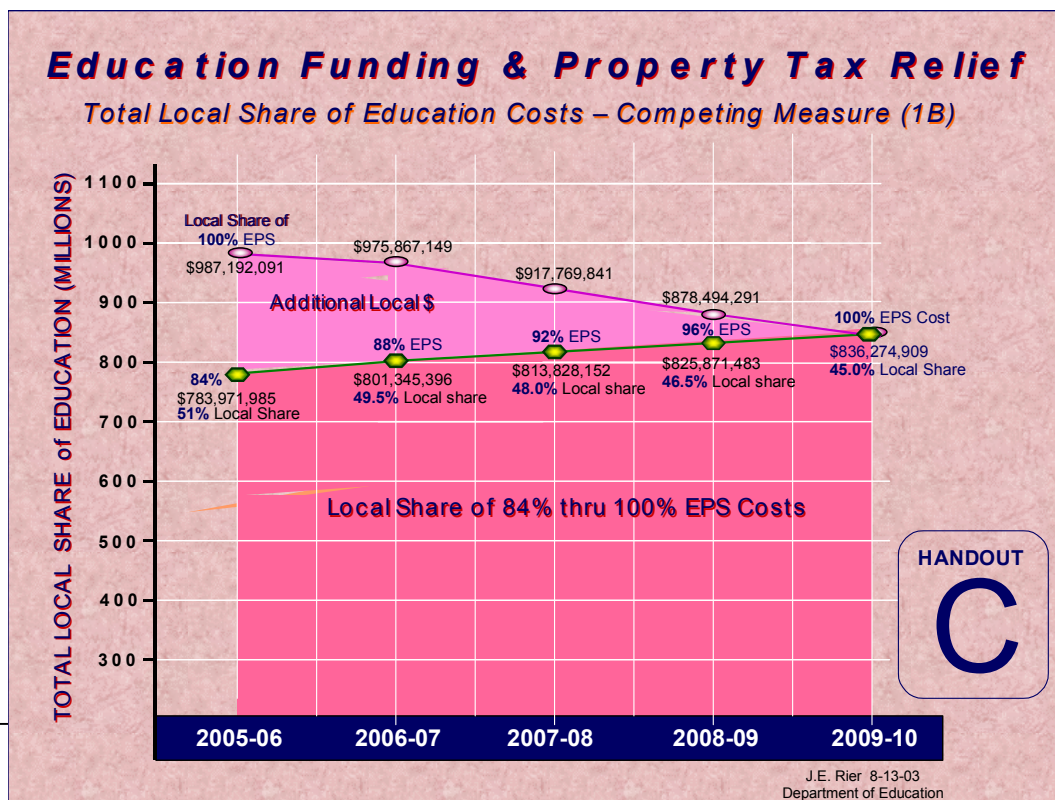
The impact on the state share associated with the Maine Municipal Association's (MMA) Citizens Initiative (1A), according to current estimates, would require an additional \$1.3 billion over the enacted EPS legislation and same five-year period. The total increase over the 3% growth base for the MMA proposal would be \$1.5 billion. The projected costs for the MMA proposal are higher than the Competing Measure at the outset and grow at a more rapid rate over the five-year period due to the 100% special education reimbursement model.



- ✓ As enacted (LD1623-PL2003 Chapter 504) increases state share from \$753 million in FY2006 to \$929 million in FY2010 and achieves 50% state share
- ✓ The Competing Measure state share increases from \$753 million in FY2006 to \$1.02 billion in FY2010 and reaches the goal of 55% state share
- ✓ The state share of the MMA proposal increases from \$1.00 billion in FY2006 to \$1.122 billion in FY2010.
- ✓ Total, state and local costs are significantly higher with the MMA proposal due to the 100% special education reimbursement requirement.

Local Share Projections

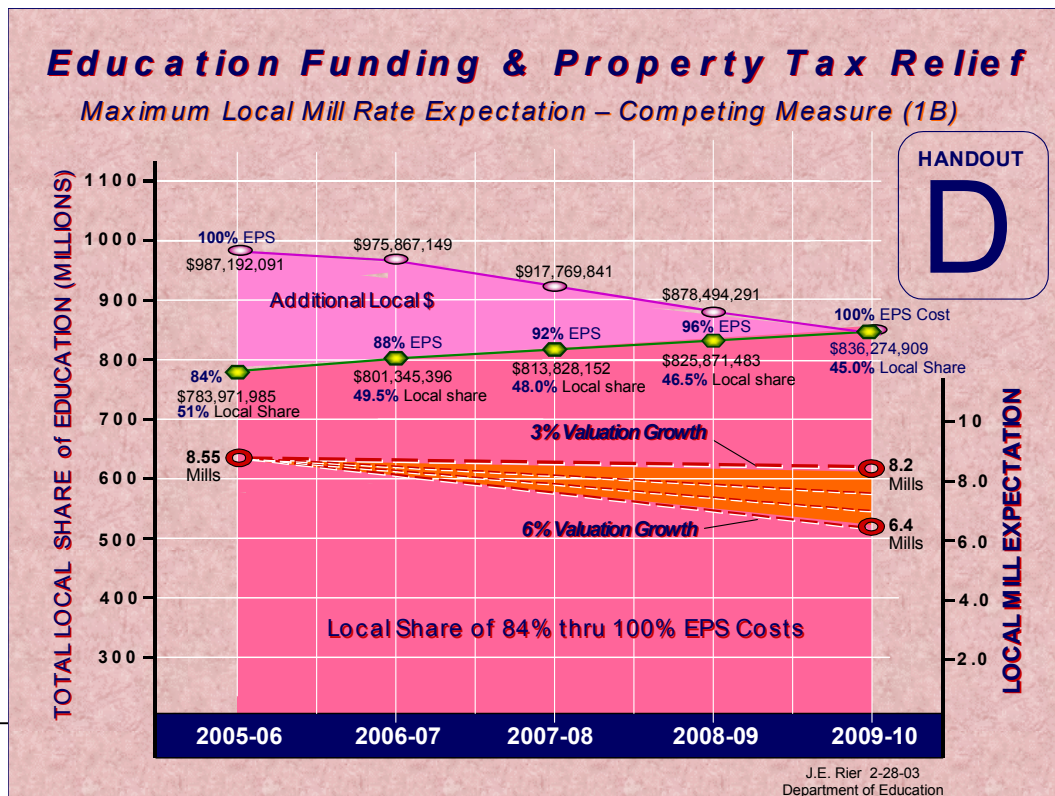
Current law defines a Total Allocation in statutory terms and a required local share of that total. Total Allocation, after many adjustments during the 1990's, does not reflect all the costs of providing K-12 Education. In fact, the current definition of Total Allocation actually recognizes only about 80% of the actual expenditures by local school administrative units state wide. The funding required above the defined Total Allocation for each School Administrative Unit is raised locally as Additional Local allocation. Essential Programs and Services begins to phase-in with FY 2005-06, recognizing more of the total K-12 costs (84% Operating Costs or 88.4% of all EPS defined costs) and by FY 2009-10 accounts for 100% of all EPS costs. The local share of those phased-in costs is required by the Competing Measure to be 51% in FY2005-06 and decrease to 45% by FY2009-10. Additional local funds would still be required in most municipalities during the first years of the measure to make up the difference between the phased-in EPS costs and the total costs to meet local education needs but would be less than those experienced in the current funding model.



- ✓ The local share of the EPS phased-in costs would increase from \$784 million (51%) in FY2000-06 to \$836 million (45%) in FY2009-10
- ✓ Total local expenditures, the local share of EPS phased-in costs plus additional local funds, would however decrease over the period from an estimated \$987 million in FY2005-06 to \$836 million in FY2009-10.
- ✓ The reduced local commitment would come from the increasing recognition of EPS defined costs and the increasing state share requirements.

Local Mill Rate Expectation

The second major component in the Competing Measure relating to school funding and tax relief is the maximum local mill rate expectation approach to distribution of state subsidy. This new method of distribution for the state share of education funding will ensure that municipalities, single or part of a School Administrative Unit, will not be required to raise more than 10 mills of state valuation for their share of local education costs. Essential Programs and Services (EPS) provides the foundation for student equity statewide and this distribution method provides for greater taxpayer equity by limiting the amount of property tax mill rate that should be required to support the local share of EPS. The state share becomes the difference between the amount raised by the established maximum mill rate and the total EPS defined costs. The maximum local mill rate expectation is determined annually to respond effectively to state valuation trends and maintain the required state share. As valuations rise a lower mill rate will be required to meet the local share of education costs.



- ✓ In FY2005-06 the required local share (51%) of the phased-in EPS costs is estimated to be \$784 million. The mill rate required to raise that \$784 million local share, based on the projected 2004 state certified valuation for each municipality, would be 8.55 mills or less
- ✓ In FY2009-10 the required local share (45%) of all the EPS defined costs would be \$836 million. Assuming a 6% annual growth in state certified valuation, the mill rate required to raise that \$836 million would be 6.4 mills or less

In municipalities that are part of school systems currently spending at or above EPS defined costs, there will still need to be additional local funds raised that increase the total mills for education required during the first years of the measure. However, many systems are not currently spending up to the EPS defined costs and will not experience the same impact. Greater state commitment over the phase-in and some increased local commitment will help those communities provide a full education program and more opportunity for their students to achieve Maine's Learning Results. After all, achieving equity of student opportunity has been a fundamental goal of Essential Programs and Services since work began on the project nearly ten years ago.

The Competing Measure is a structured well-planned approach to achieving greater state support for K-12 education while honoring and supporting a host of education reform initiatives well underway. The linkage between Essential Programs and Services and Maine's Learning Results is well established. The goal of full implementation of both is further enhanced through the strengthened and timely commitment of resources included in the Competing Measure.

